SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER
AUDIT DIVISION

Joseph Sawicki, Jr.
Comptroller

An Audit of
Maryhaven Center of Hope Health Service Contracts
For the Period
January 1, 2005 through December 31, 2005

Report No. 2009-04
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Joseph Sawicki, Jr.
Suffolk County Comptroller

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LETTER OF TRANSMITTAL

April 23, 2009

Hon. Joseph Sawicki, Jr.
Suffolk County Comptroller
Suffolk County Department of Audit and Control
H. Lee Dennison Executive Office Building
100 Veterans Memorial Highway
P.O. Box 6100
Hauppauge, NY 11788-0099

Dear Mr. Sawicki:

In accordance with the authority vested in the County Comptroller by the Suffolk County Charter (Article V), an audit was conducted of Maryhaven Center of Hope (the "Agency" or "Maryhaven") for the period January 1, 2005 through December 31, 2005. The Agency provided vocational and support services for mentally ill individuals under two contracts with the Suffolk County Department of Health Services-Division of Mental Hygiene ("DHS"). The Agency's administrative offices are located at 51 Terryville Road, Port Jefferson Station, NY 11776.

The audit objectives were as follows:.

- To determine if the Agency complied with requirements stated in laws, regulations, and Department of Health contracts.
- To evaluate and test internal controls relating to the processing of payroll, cash receipts, and cash disbursements transactions associated with the Department of Health contracts.
- To evaluate the Agency's procedures relating to the reporting of the revenues and expenses on the Consolidated Fiscal Report–Schedule DMH-3 (also known as Consolidated Claiming Report or CCR) for the cost centers associated with the Department of Health contracts.

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Such standards require that we plan and perform our audit to adequately assess those operations that are included in our audit scope. Further, these standards require that we understand the internal control structure of the Agency and its compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope.

An audit includes examining, on a test basis, evidence supporting the transactions recorded in the accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our findings and recommendations.

We also noted certain matters that were reported to the Agency's management in a separate letter dated April 23, 2009.

Respectfully,

Elizabeth Tesoriero

Elizabeth Tesoriero, CPA
Executive Director of
Auditing Services

ET/DMM

SUMMARY OF SIGNIFICANT AUDIT FINDINGS

County Funding – As a result of submitting a Consolidated Claiming Report for the period January 1, 2005 through December 31, 2005, the Agency received deficit funding of $1,663,883 as summarized on the Schedule of Reported Expenditures and Revenues (p. 21). This schedule is included in our report for informational purposes only.

Compliance with Laws, Regulations and the County Contract – The Agency's procedures for reporting costs and revenues on the CCR are not always in compliance with the N.Y.S. Consolidated Fiscal Reporting and Claiming Manual. The identified deficiencies primarily involved allocations of costs and are included in the section of this report titled Evaluation of Procedures for Reporting Expenses and Revenues (p. 13).

Our audit also identified the following instance of noncompliance:

- Agency Administration expenses reported by the Agency on the Consolidated Fiscal Report (CFR) included certain non-allowable expenses (p. 11).

Internal Controls – Our evaluation of the Agency's internal controls did not disclose any significant deficiencies. However, our testing did disclose several weaknesses relating to the processing of Other Than Personal Service (OTPS) expenses (p. 12).

Evaluation of Procedures for Reporting Expenses and Revenues - Our audit identified deficiencies in the Agency's allocation methodology as follows:

- When allocating salaries of shared staff (employees that provide services to more than one program) the Agency uses various allocation methods which are generally unsupported by documentation and subject to adjustments by management (p. 13).

- The Agency's allocation methodology for distributing the fixed costs of the Vocational Workshop, Micrographics and Porter Maintenance programs is flawed. Furthermore, the Agency's "clients/persons served" by funding source methodology is not in compliance with the guidelines presented in the CFR Manual–Appendix J-Allocating Expenses for Shared Program/Site which supports using weighted units of service by client disability when a "direct charge basis by funding source" method is not used (p. 14).

- The Agency did not maintain proper documentation to support the statistics used in their allocation methodology for the following programs: Vocational Sheltered Workshop, Micrographics and Porter Maintenance (p.15).

- The number of "clients/persons served" used in the Vocational Workshop Program allocation methodology for distributing fixed costs to the various funding sources appears to be inaccurate (p. 16).

- The Agency's allocation methodology for the Special Employment Program results in an inequitable distribution of costs and revenues between the funding sources (p. 17).

We also noted other matters regarding the Agency's procedures for reporting expenses and revenues that are not considered to be reportable under Government Auditing Standards (p.18).

GENERAL INFORMATION

Maryhaven Center of Hope is a not-for-profit organization whose mission is to operate programs and provide facilities for mentally ill, mentally retarded, and developmentally disabled individuals.

The Agency is authorized to furnish services to eligible Suffolk County adults pursuant to rules and regulations of the New York State Office of Mental Health (OMH) and the Office of Mental Retardation and Developmental Disabilities (OMRDD). The Suffolk County Department of Health Services-Division of Mental Hygiene (DHS) provides oversight for eight programs involving OMH clients: five which offer vocational training and/or vocational assistance; two which offer transportation to vocational clients; and the last which focuses on integrating individuals with mental illness into the community by developing social skills and offering leisure activities. The Agency received $1,663,883 in State funding for these eight programs during the audit period. OMH funding was passed-thru to the Agency from DHS pursuant to two county contracts. In addition to OMH funding, the audited programs were supported by Medicaid, sales contract revenues, federal grants, and program income.

The Agency operates a work center in Yaphank and an off-site work program in Hauppauge to provide a work environment for adults who are diagnosed with developmental disabilities, mental illness, mental retardation, and physical handicaps. The Yaphank work center is comprised of an industrial packaging and assembling sheltered workshop program (Vocational Workshop), an electronic assembly sheltered workshop program (Special Employment-Electronics), and a document imaging program (Micrographics). In addition, there is the off-site work program in Hauppauge which provides work for clients in an independent facility but under the supervision of Agency staff (Special Employment-Regents).

The objective of the two sheltered workshop programs is to provide a non-integrated work environment for clients who are not ready to assimilate into competitive employment. During their involvement with the sheltered workshop, the client receives vocational assessment, training and paid work experience. The Micrographics program provides the client with vocational assessment, training, and transitional or long term paid employment in a less restrictive employment setting.

The Agency also conducts a Porter Maintenance program in the Maryhaven offices located in Yaphank, Riverhead, and Port Jefferson. The clients are provided with vocational services which include both training and paid employment in housekeeping, office cleaning, etc.

Eligible clients who are capable of working in the outside labor force can receive vocational assistance in Port Jefferson through the Ongoing Integrated Supported Employment Services program. These individuals receive ongoing job coaching, employer consultation and other supports needed to help them maintain the outside job placement.

There are two transportation programs (CSS Transportation and Riverhead Transportation). The programs use both Agency buses and outside contractors to provide transportation to clients attending Agency programs, as well as, clients attending other mental health facilities.

The Agency operates a program (Psychosocial Club) in Riverhead which has the objective of assisting mentally ill clients in developing and re-establishing a sense of self esteem and group affiliation. This program promotes the individual's recovery from mental illness and reintegration into the community. The meetings are held several times a week and include sessions relating to such areas as: community living, vocational rehabilitation, social/leisure time rehabilitation, etc.

Two other Agency programs under the jurisdiction of the Department of Social Services (DSS) were audited concurrently with the DHS programs; separate audit reports will be issued for the DSS programs.

SCOPE AND METHODOLOGY

To accomplish our objectives as stated in the Letter of Transmittal, we performed the following procedures:

- Conducted interviews with personnel from the Suffolk County Department of Health Services-Division of Mental Hygiene (DHS) and the Agency.
- Secured and reviewed laws, regulations, and contracts related to the operations of the Agency's programs that are included in our audit scope.
- Reviewed the Board Minutes for February 2004 through April 2006 to determine whether there was any information contained therein which may be relevant to the audit.
- Reviewed the program audit conducted by the Suffolk County Department of Health Services covering the year 2005.
- Obtained from the Agency the allocation schedules for the four programs, Vocational Workshop, Special Employment, Micrographics, and Porter Maintenance, which distributed expenses and revenues to two funding sources: OMH and OMRDD.
- For each General Ledger Code (a/k/a Lawson Code) involving the eight programs we subtotaled the General Ledger details by account number and compared the subtotals to the Trial Balance subtotals provided by the Agency. The General Ledger details were used in test selections.
- Reconciled the reported expenses for the eight programs from the Trial Balance to the Consolidated Claiming Report (CCR).
- Visited the Yaphank facility to observe the distribution of the client stipends and to gain an understanding of the work center operations.
- Verified revenues paid through NYS by utilizing one or more of the following components: NYS contracts, external confirmations, external schedules provided by NYS including Contract Invoice Maintenance details, verbal correspondence, etc.
- Evaluated and tested the Agency's internal control procedures as they relate to transactions associated with the DHS contracts by reconciling the revenues verified as paid through NYS to the revenues recorded in the Agency's supporting schedules and accounting records.

- Evaluated the Agency's internal control procedures as they relate to subcontracting revenues by performing several procedures involving a test of ten May 2005 transactions selected from the May 2005 Wage Tracker and ten May 2005 Bills of Lading from a list of Bills of Lading. Similar tests were performed for Regents Sports subcontracting fees except that in lieu of the Wage Tracker we used an Invoice Register which tied into the amount posted on the General Ledger.

- Randomly selected from the General Ledger one pay period for each Lawson code representing the seven programs (Riverhead Transportation not tested.) Traced the transactions to the Payroll Journal Entry, Payroll Management Report and ADP Payroll Register to verify the documented process. Reviewed details relating to the employees listed for the pay periods and performed tests to include verification of: time worked listed on the employee's Time Detail card; time noted on the ADP Payroll Register; the employee's job title; pay rate; payment; leave accruals.

- Reviewed the Agency's shared staff policy and correlated it to the requirements found in the Consolidated Fiscal Reporting and Claiming Manual relating to employees who are allocated at less than 100% to a program.

- Selected FICA, Health Insurance and Pension Expenses and performed tests of these fringe benefits.

- Selected and tested twenty-eight Other Than Personal Service (OTPS) transactions for compliance and internal control testing.

- Judgmentally selected and tested three Agency Administration expense categories for analytical, compliance and internal control testing.

- Reviewed documentation which supports the Agency's compliance with certain contract provisions.

- Reviewed and analyzed the allocation methodology relating to four programs: Vocational Workshop, Special Employment, Micrographics and Porter Maintenance. The pooled expenses and revenues of these programs are distributed to two funding sources: OMH and OMRDD.

- Analyzed the details contained in the LS2C database and correlated the information to other schedules provided by the Agency.

- Analyzed schedules provided by the Agency to support criteria used in their allocation methodology.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

DETAILED RESULTS OF EXAMINATION

Compliance with Laws, Regulations and the County Contracts

Agency Administration expenses reported by the Agency on the Consolidated Fiscal Report (CFR) included certain non-allowable expenses. Details regarding these expenses are as follows:

- Agency Administration expenses included a penalty fee imposed by the IRS for failing to deposit taxes within the required time period. The CFR Manual, Appendix X states that "costs resulting from violations of, or failure to comply with Federal, State and Local government laws, rules and regulations, including fines..." are adjustments to reportable costs and, as such, are not allowable.
- Our testing revealed that Agency Administration expenses included dues paid to two organizations that are engaged in lobbying State government on issues related to the services the Agency provides. The Agency reported these organizations under "lobbying activities" on their IRS form 990 filing for 2005. The CFR Manual, Appendix X states that dues paid to any professional organization whose primary function is of a political or lobbying nature and whose intent is to influence legislation are adjustments to reportable costs and, as such, are not allowable.

Recommendation 1

The Agency should comply with the CFR Manual, Appendix X, which requires that non-allowable costs be included on the line in the CFR-3 titled "Adjustment/ Non-Allowable Costs". To facilitate accurate reporting the Agency should establish a designated account within the accounting system for non-allowable costs or modify the accounting software system to include special coding to identify these transactions.

Internal Controls

Testing of the Agency's internal controls relating to the processing of Other Than Personal Service (OTPS) expenses disclosed several weaknesses; however, these weaknesses are not considered to be significant deficiencies in internal control. We tested twenty-eight OTPS transactions and found the following deficiencies:

- Five of the transactions contained Accounts Payable entry forms which were missing the initials of the employees who processed the forms resulting in a lack of employee accountability for the entries.
- One of the transactions pertained to services that were provided to clients in 2003. This transaction was inappropriately charged to the 2005 contract.
- One of the transactions consisted of parts and labor expenses for twenty-one vehicles. We found that two of the vehicles were not affiliated with the CSS Transportation program based on vehicle lists provided by the Agency. In addition, one of these two vehicles, identified as #153, could not be found on the Agency's lists of vehicles. This not only resulted in an error in the allocation of vehicle expenses but reveals an internal control weakness whereby an unidentified and possibly unauthorized vehicle may have been repaired.
- One of the transactions consisted of fuel expenses for twenty-six vehicles. We found that four of the listed vehicles were not affiliated with the CSS Transportation program based on vehicle lists provided by the Agency; these four vehicles were identified with programs unrelated to the DHS contracts. This transaction resulted in an error in the allocation of fuel expenses.

Recommendation 2

Accounts Payable procedures should be expanded to include requiring initialing of the Accounts Payable entry form; advising Accounts Payable employees that prior year expenses should not be posted to the current year's contracts; and periodically matching the operating expenses by vehicle number to the vehicles listed on the equipment inventory by program and number to ensure that there are not any improper charges for fuel or repairs.

Evaluation of the Agency's Procedures for Reporting Expenses and Revenues

When allocating salaries of shared staff (employees that provide services to more than one program) the Agency uses various allocation methods which are generally unsupported by documentation and subject to adjustments by management. The Agency's allocation methodologies are described in the shared staff guidelines of their Payroll Policy Manual. We found that there were instances in these guidelines where the allocation methodologies were vague and difficult to interpret regarding the specific criteria that are applied when the calculations are made. Examples of these generalized allocations are as follows:

1. Division Directors are allocated based on "the size of each program"
2. Program Managers are allocated based on "the size of each department"
3. Program Directors are allocated based on the "number of individuals served in each department or the relative workload of each"

Even though some other methods used by the Agency are more specific and appear to be reasonable, the allocation percentages were not always adequately supported by documentation. In addition, we found that the Agency did not always follow the guidelines when applying allocation rates. As a result of these deficiencies, the Agency was not always able to substantiate that each program's payroll expenses were properly allocated and reported.

Recommendation 3

The Agency should follow the guidelines cited in Appendix J of the CFR Manual which state that the use of actual hours of service is the preferred statistical basis upon which to allocate salaries and fringe benefits. Whenever possible, the Agency should either maintain its payroll by direct program charges or conduct periodic time studies for employees working for more than one program. If either of these methods is not feasible for certain positions then other methods are allowable if they are adequately supported by statistical data related to job duties. In addition, proper written documentation should always be maintained to support payroll allocations.

The Agency's allocation methodology for distributing the fixed costs[1] of the Vocational Workshop, Micrographics and Porter Maintenance programs is flawed. Furthermore, the Agency's "clients/persons served" by funding source methodology is not in compliance with the guidelines presented in the CFR Manual – Appendix J - Allocating Expenses for Shared Program/Site which supports using weighted units of service by client disability when a "direct charge basis by funding source" method is not used. The Agency bases its allocation methodology on the count of "client/persons served", which they define as the number of clients in the beginning population plus any add-ins (new clients and transfers in). We have identified the following flaws in the Agency's methodology:

- The methodology is not based on full-time equivalents. Instead a client/person is counted as "one person" regardless of the amount of time the client spends working within the program.
- The methodology does not give any consideration to clients who are

[1] The fixed costs are identified as personal salaries (staff salaries)/fringes, Other Than Personal Services (OTPS), Equipment, and Property.

terminated or transferred out of a program during the year.

- The methodology does not give any consideration to clients who are classified as "Physical" and not funded by either OMH or OMRDD.
- Clients that transfer into more than one program during the year are counted as "one person" in each program for the full year.
- There is a lack of consistency in the recording of clients as Transfers-In on the monthly Report of Starts, Terms, Transfers & Interrupted. Some clients were not listed as transfers to a program on the report even though the client may have had a significant number of units of service in the program.
- Most clients start with an evaluation and are counted as "one person" in the Vocational Workshop when he/she has an evaluation. Even though an evaluation only takes from one to fifteen days, the client is counted the same as another client who works full time in the program.

Recommendation 4

The allocation methodology using weighted units of service by client disability would most properly represent the client base needed to distribute the fixed costs of a program. This methodology distributes costs by client usage and involvement in the program and it is less subject to clerical errors or discretionary decisions. It is also the preferred allocation methodology found in the CFR Manual for the audit period and the required method, for Sheltered Workshop[2] programs, in CFR Manuals issued after the 2006 year. We recommend the Agency utilize this methodology in preparing their CCR.

The Agency did not maintain proper documentation to support the statistics used in their allocation methodology for the following programs: Vocational Sheltered Workshop, Micrographics and Porter Maintenance. Our review of the Agency's allocation methodology disclosed the following deficiencies:

[2] The Vocational Workshop is a Sheltered Workshop program.

- The Agency could not provide a list of the names of Office of Mental Health (OMH) and Office of Mental Retardation and Rehabilitation (OMRDD) clients who were included in the "clients/persons served" statistics of the allocation methodology.

- The Agency could not provide a list of the names of the World of Work clients for 2005 which supports the 85 individuals who were eliminated from the OMRDD client base in the Vocational Program.

- The 2005 annual statistics for the Starts and Transfers-In clients is inaccurate based on the twelve monthly Reports of Starts, Terms, Transfers-In and Interrupted for 2005. The Agency provided us with the twelve monthly reports from which we calculated the total for the year based on the Agency's methodology. As a result, we found that the counts were over and under the client numbers reported.

- The twelve monthly Reports of Starts, Terms, Transfers and Interrupted are missing transfers of clients between programs. We compared the information on 50% of the LS2C client database to the monthly Reports and found that 16 of the 180 clients (9%) reviewed appeared to be missing a transfer to a second program.

Recommendation 5

The Agency should maintain hard copies of records which support the statistics used in its allocation methodology. In addition, the Agency should explain to appropriate personnel in the Yaphank facility the importance of preparing and retaining supporting documentation for client statistics and reconciling to summaries. The Agency's accounting staff should also periodically review the process to ensure that there is consistency and accuracy in reporting client statistics.

The number of "clients/persons served" used in the Vocational Workshop Program allocation methodology for distributing fixed costs to the various funding sources appears to be inaccurate. Since the Agency was unable to provide rosters of Vocational Workshop clients, we evaluated the number of "clients/persons served" used in the Agency's fixed cost allocation methodology. We analyzed the LS2C database of OMH, OMRDD, and Physical clients. The table below summarizes the differences between the original statistics reported by the Agency for the various funding streams and the revised statistics based on our analysis:

	OMH	OMRDD	Physical	Total
Original	131 54%	112 46%	0 0%	243 100%
Revised	108 43%	123 50%	17 7%	248 100%

As noted in the Table above, the number of clients/persons served used by the Agency to allocate fixed costs to funding sources overstated the number of OMH clients which would then have resulted in the over allocation of fixed costs to OMH.

Recommendation 6

The Agency should implement procedures designed to provide assurance that statistics used in allocations are accurate and complete and that the allocation methodologies comply with the CFR Manual.

The Agency's allocation methodology for the Special Employment Program results in an inequitable distribution of costs and revenues between the funding sources. As a result of reviewing the details of the allocation methodology for the Special Employment Program, we found that Maryhaven improperly excluded two groups of participants from the distribution of specific costs and revenues: the OMRDD and Physical clients. Details relating to the distributions are as follows:

- Maryhaven's allocation methodology distributed the majority of fixed costs to the OMH funding source as follows: staff salaries/fringe (93.4%)[3], OTPS (100%), Equipment (100%) and Property (100%). Since the Special Employment program operates for the benefit of two other client groups, the OMRDD clients and the Physical clients, the fixed costs of operating the program should have been shared by these two other groups.

- Maryhaven did not include in its allocation of client stipend costs, raw material costs, and subcontractor revenues the units of service for the client group noted as "Physical". As a result these categories were only distributed to the OMH and OMRDD clients.

Recommendation 7

The allocation methodology using weighted units of service by client disability would most properly represent the client base needed to distribute the costs of the program. Since this is the preferred methodology in the CFR Manual for the audit period and the required method for Sheltered Workshop[4] programs in CFR Manuals issued after the 2006 year, the Agency should use this method when preparing the CCR.

We also noted the following matters regarding the Agency's procedures for reporting expenses and revenues that are not considered to be reportable under Government Auditing Standards:

The Agency reported Long Term Sheltered Employment (LTSE) Revenues for the Vocational Workshop and Special Employment Programs based on estimated client statistics determined at the beginning of the year but failed to make an adjustment to reflect actual client statistics determined at year end. We found through our testing of LTSE Revenues that the Agency did not use the actual eligible

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[3] Maryhaven distributed the remaining 6.6% of staff salaries to the OMRDD funding source. These salaries represent salaries of individuals earning less than the Suffolk County Living Wage rate.

[4] The Special Employment program is a Sheltered Workshop program.

client base to report LTSE Revenues.

Recommendation 8

Although the Agency uses monthly estimates for the reporting of LTSE Revenues for each of the programs during the year, an adjusting entry should be made once actual information is known.

The Agency did not revise their CCR when a revised ratio value rate was established for allocating agency administration expenses. The Agency acknowledged that an error was made on the CCR-Schedule DMH-2 and provided us with documentation regarding the amount that should have been reported. Although the error was not a material amount, the Agency has an obligation to issue a revised CCR when they become aware of errors in reported amounts.

Recommendation 9

The Agency should properly report their administrative costs for the various programs by using the rate established under the ratio value method. If errors are subsequently detected a revised report should be issued.

This report is intended solely for the information and use of Maryhaven's Board of Directors and management, responsible Suffolk County officials, and responsible NYS officials and is not intended to be used by anyone other than these specified parties. However, this report is available for public inspection.

SCHEDULE

Maryhaven Center of Hope
Health Service Contracts
Schedule of Reported Expenditures and Revenues
For the Period January 1, 2005 through December 31, 2005

Description	Vocational Workshop	Special Employment Workshop	Micro-graphics	Porter Maintenance	Ongoing Integrated Supported Employ Svcs.	CSS Transportation	Riverhead Transportation	Psycho-social	Total
Personal Services	$361,886	$280,797	$172,543	$31,969	$62,624	$534,350	$7,485	$27,648	$1,479,302
Fringe Benefits	111,252	83,198	60,933	9,371	19,390	176,188	1,462	7,620	469,414
Other Than Personal Services (OTPS)	196,214	87,810	122,109	37,191	10,905	288,660	248,575	445	991,909
Equipment	24,948	5,834	30,291	360	3,605	66,258	-	-	131,296
Property	81,888	20,227	23,964	2,368	6,229	10,895	-	10,800	156,371
Direct Expenses	776,188	477,866	409,840	81,259	102,753	1,076,351	257,522	46,513	3,228,292
Agency Admin Allocation	63,285	42,574	27,907	7,730	8,109	89,285	29,032	3,186	271,108
Reported Expenditures	**839,473**	**520,440**	**437,747**	**88,989**	**110,862**	**1,165,636**	**286,554**	**49,699**	**3,499,400**
Medicaid	385,391	151,219	-	-	37,865	274,316	-	32,343	881,134
Sales: Contract	103,286	118,924	262,448	2,706	-	-	-	-	487,364
Unified Service Contract	10,519	2,442	406	665	-	-	904	-	14,936
Long Term Sheltered Employment Program (LTSE)	156,389	55,967	-	-	-	-	-	-	212,356
LTSE Exemption	(62,556)	(22,387)	-	-	-	-	-	-	(84,943)
Reported Revenue	**593,029**	**306,165**	**262,854**	**3,371**	**37,865**	**274,316**	**904**	**32,343**	**1,510,847**
Net Expenditures	246,444	214,275	174,893	85,618	72,997	891,320	285,650	17,356	1,988,553
Non-Funded	92,115	80,027	-	-	-	93,398	44,789	14,341	324,670
Deficit Funding	**$154,329**	**$134,248**	**$174,893**	**$85,618**	**$72,997**	**$797,922**	**$240,861**	**$3,015**	**$1,663,883**

See Notes to Schedule (p.22)

Notes to Schedule

Maryhaven Center of Hope
Health Service Contracts
Schedule of Reported Expenditures and Revenues
For the Period January 1, 2005 through December 31, 2005

Source of Information - The Agency prepares a year-end Consolidated Fiscal Report (CFR) which includes Office of Mental Health (OMH) State Aid claiming schedules. The CFR claiming schedules are the DMH-2, DMH-2A and the DMH-3. These schedules along with two certification schedules are known as the Consolidated Claiming Report (CCR). The Schedule of Reported Expenditures and Revenues presented is based on the fiscal details listed on the CCR for 2005. Each of the programs listed has its own cost center on the CCR which accounts for expenses and revenues by individual program.

Net Expenditures - Net expenditures are those costs of operating the program to the OMH clients which exceed revenues from the following funding sources: Medicaid, outside sales contracts, Unified Service Contracts, and the Long Term Sheltered Employment Program.

Deficit Funding - The amount of the deficit funding by program is limited by the Consolidated Budget Report (CBR) previously submitted by the Agency to NYS. The deficit funding represents an amount that NYS is willing to provide to help defray the net expenditures of each program. For 2005, Suffolk County, as the pass through agent, entered into two contracts with the Agency and dispersed payments to the Agency based on specific quarterly submissions. When the year ended, the Agency completed and submitted its comprehensive CFR for the calendar year to NYS. The Agency also provided a copy of the CCR to the Suffolk County Department of Health (DHS). DHS reconciled the CCR to the total payments; this resulted in DHS both requesting refunds and the issuing payment vouchers based on each program's operations.

Non- Funded Expenditures - Non-funded costs are costs that are not supported by any outside funding sources. The Agency is responsible for this amount.

Maryhaven Center of Hope

RESPONSE TO THE FINDINGS AND RECOMMENDATIONS
Suffolk County Department of Health Services
DATED April 23, 2009

Approximately three years passed from the beginning of fieldwork for this audit and the first draft report of findings related to this audit. As such, several of the underlying transactions or discussions that are the basis for the findings and recommendations are difficult to recall. Our response, therefore, is general to what we remember of the issue, or it reflects performance improvements we have otherwise identified (outside the audit process) and put into practice in the intervening years.

Recommendation 1 – The Agency should comply with the CFR Manual, Appendix X,

Response: The finding is in reference to certain non-allowable costs that were incorrectly reported on the CFR, and suggesting that we set up accounts in our general ledger for such costs. The nature and scope of the costs was not disclosed in the audit report.

Maryhaven maintains several accounts that are designated for non-allowable costs. With thousands of transactions running through the general ledger every week, non-allowable costs will sometimes be coded to an inappropriate account. We believe that we have systems in place to prevent these errors from ever reaching the level of materiality.

In addition, there may be times when we report an expense that we did not realize was non-allowable. These errors are always corrected when they become known. The CFR is corrected, either retrospectively or prospectively, depending on the nature of the error, the impact to funding, and the direction of the various funding sources.

Administrative costs are spread to all programs based on ratio-value methodology; the dollar amount of the disallowed expenses charged to the Health Services contracts would be immaterial. In addition, because there was over $324,000 in non-funded costs, the actual impact on funding provided is negligible.

Recommendation 2 – Accounts Payable procedures should be expanded to include requiring initialing of AP entry form; AP employees should not post prior year expenses to current year contracts; and periodically matching operating expenses by vehicle number.

Response: Maryhaven already has a procedure in place for initialing AP entry forms. In addition, our general ledger software includes an audit trail that identifies the employee who entered the voucher.
Prior year expenses are generally coded to a prior-year account, and not reported. With thousands of transactions running through Accounts Payable every week, prior-year costs will infrequently be coded to an inappropriate account.
We believe that we have systems in place to prevent these errors from ever reaching a level of materiality.
In 2006 we instituted an electronic requisition system, which allows the transportation director to code the vehicle maintenance charges. The director has the best information on the program use of a vehicle. Fuel is likewise monitored by the transportation director, or site specific credit cards to ensure proper coding. Finally, we are matching our fixed asset and insurance files to the transportation records on a quarterly basis.

Recommendation 3- The Agency should follow CFR guidelines to allocate employees by actual hours of service or periodic time studies.

Response: Allocations for senior level management are based on the size and complexity of the programs that each supervises. We believe our method provides a better measure of the overall picture of manager responsibility.
We agree that it is important to maintain documentation on the specific method used, and to obtain signatures of the employee and/or supervisor on the allocation. This practice has been implemented.

Recommendation 4 – The allocation methodology using weighted units of service by client disability would most properly represent the client base needed to distribute the fixed costs.

Response: We take exception with units of service as the most appropriate method for allocating fixed costs. The costs to operate a program, including decisions about the size of the building, the number and type of personnel, the equipment purchases, etc., are based on provisions for the number of persons enrolled and the expected attendance for each.
We do agree that each person enrolled should be counted by the applicable FTE, so that mid-year admissions and discharges do not result in over- or under-counting. We have revised our procedures; this is now fully implemented.

Recommendation 5 – The Agency should maintain hard copies of records which support the statistics used in its allocation methodology, and communicate to all program staff the importance of reconciling statistics.

Response: The Recommendation as stated has been put in place.

Recommendation 6- The Agency should implement procedures designed to provide assurance that statistics used in allocations are accurate and complete, and that allocation methodologies comply with the CFR Manual.

> Response: Both the units of service issue and the proper review and documentation to support statistics are addressed in the two recommendations and responses above.
> We believe that it is imperative that we discuss the allocation with OMH and the County before we enter into next year's contracts. A change in the allocation method that could result in funding reductions would likely jeopardize the continuation of the work center for the OMH population.

Recommendation 7 – The allocation methodology using weighted units of service by client disability would most properly represent the client base needed to distribute the costs of the program.

> Response: The finding and response have been addressed in numbers 4 and 6 above.

Recommendation 8 – The Agency should adjust its estimates for LTSE Revenue based on actual year-end information.

> Response: The Recommendation has been put in place as stated.

Recommendation 9 – The Agency should properly report their administrative costs on the CCR using the established ratio value method.

> Response: The CCR is submitted before final year-end and audit adjustments are posted. Beginning in 2006, we have revised the DMH-3 schedule (which is the CCR report) to reflects all of the post-closing and audit adjustments, so that the final report to all funding agencies accurately reflects the final ratio value for Agency Admin.

Appendix B
Audit & Control's Assessment of Response

Maryhaven Center of Hope submitted a written response to the audit report which is included as Appendix A (p.23). Our response is limited to those findings and recommendations which need further clarification or comment as follows:

Finding/Recommendation 4 and 7 - Maryhaven should comply with Appendix J of the CFR Manual (versions issued after 2006) which states that, "Sheltered workshop programs shared between OMH and OMRDD must use units of service for allocating program costs". If Maryhaven believes that this method will drastically affect their funding and their ability to provide services, they should contact OMH and OMRDD to discuss the issue and obtain written approval to use an alternate allocation methodology.